



# Japanese Economy Monthly Forecast

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## Headlines

### ● Review of data released in February

▶ According to the first preliminary estimates, 2019 Q4 real GDP slumped an annualized -6.3% QoQ, declining for the first time in five quarters. Q4 GDP growth was far below the market consensus, but APIR's latest production-side CQM forecast was almost in the bull's eye (-6.4%).

▶ The following factors will put considerable downward pressure on future forecasts: (1) the downward revision in Q3 real GDP growth, (2) the fact that Q4 growth fell far below the market consensus, and (3) the impact of the novel coronavirus outbreak.

▶ Although the Index of Industrial Production in January increased for the second consecutive month, its recovery from the October-November slump has been slow.

▶ Large retailers' sales in January shrank for the fourth month in a row. Although the impact of the consumption tax hike in October is wearing off, concerns remain as the impact of the coronavirus will only crystalize in February data.

▶ Planned residential construction and capital goods shipments both declined in January. At the same time, the index of final goods inventories expanded for the second month in a row, as inventories piled up. Based on that, we expect that private residential investment and private capital investment will be bearish in 2020 Q1.

▶ Real exports and imports in January declined for the second consecutive month (by -4.6% and -2.9%, respectively). Compared to the 2019 Q4 average, exports and imports dropped -3.9% and -2.2%, respectively. As a result, net exports shrank.

### ● 2020 Q1 real GDP growth forecast update

▶ Our forecast for real GDP growth (expenditure side) in Q1 is -0.1% QoQ, or -0.6% if annualized. The production-side forecast figure is an annualized +0.0%. The average of the two is an annualized -0.3% (Figure 1). We have downgraded our forecast for four consecutive weeks.

▶ The impact of the coronavirus outbreak is sure to be reflected in upcoming statistics on private final consumption expenditure. As a result of that, our future GDP growth forecasts are likely to be revised further downwards.

### ● 2020 Q1 inflation forecast update

▶ The Tokyo core consumer price index (CPI) in February increased YoY for the 32nd consecutive month. However, the rate of increase decelerated from the previous month, reflecting the cheaper accommodation rates, which are a consequence of the coronavirus outbreak.

▶ Our CQM forecasts for the private final consumption expenditure deflator and the domestic demand deflator in Q1 are both +0.1% QoQ. As the terms of trade are deteriorating, we forecast an overall Q1 GDP deflator of -0.0% QoQ (Figure 2).

Fig 1 CQM Forecast: Real GDP growth rate Jan-Mar (Q1) 2020 (% , QoQ annualized growth)

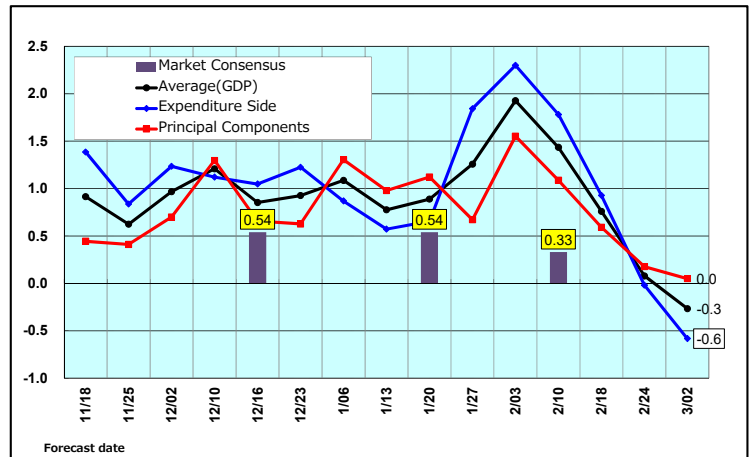
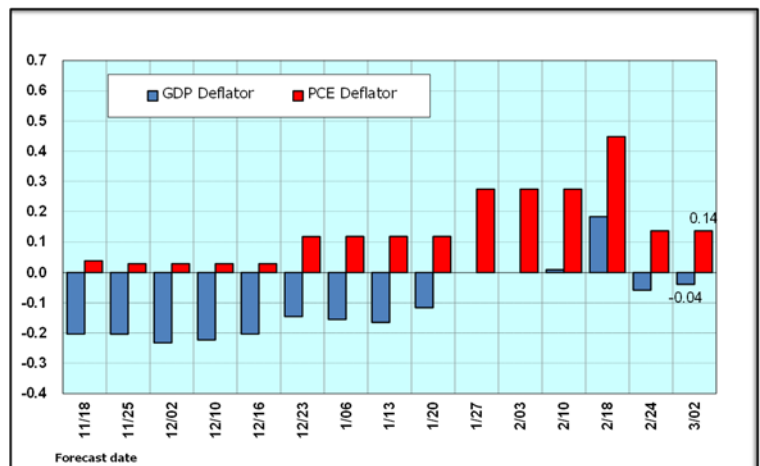


Fig 2 CQM Forecast: Inflation Jan-Mar (Q1) 2020 (% , QoQ growth)



We used the Current Quarter Model (CQM) methodology developed by Professor Emeritus L. R. Klein to create two forecasting models for the Japanese economy: a demand-side model and a production-side (principal component analysis) model. We refer to the forecasts by the former model as the main series, and those by the latter model, as well as the average of both models, as the reference series. Forecasts made using the CQM model are renewed continuously, incorporating the latest weekly data, which makes it possible to determine and trace the impacts of the latest short-term trends on macroeconomic conditions.

### Main Economic Indicators released in February

Release Date	Data Month	Economic Indicator	Value/ Index Score	Change		
				MoM	YoY	
2/28	January	<b>Labor Force Survey</b>				
		Total employment (millions)	67.40	-0.25		
		Total unemployment (millions)	1.64	+0.12		
			Unemployment rate (%)	2.4%	+0.2%pt	
	January		<b>General Job Placement Situation</b>			
			Job offers-to-applicants ratio	1.49	-0.08%pt	
	January		<b>Indices of Industrial Production (preliminary figures, 2015=100)</b>			
			Production	99.6	+0.8%	
			Shipments	96.9	+0.2%	
			Inventories	105.8	+1.5%	
	January		<b>Current Survey of Commerce (preliminary figures)</b>			
			Retail trade (billion JPY)	11,789.0	-0.4%	+0.6%
	January		<b>New Housing Starts</b>			
			New housing starts (SA, Unit)	60,341	-4.6%	-10.1%
		Planned residential construction expenditure (billion JPY)	984.2	-8.7%	-11.0%	
December		<b>Construction Costs Deflator (2011=100)</b>				
		Housing construction	116.7		+2.5%	
		Public works	119.0		+3.0%	
February		<b>Tokyo Region Consumer Price Index (2015=100)</b>				
		Core	101.7	-0.2%	+0.5%	
2/27	January	<b>Manufacturing Industry Input-Output Price Index (2011=100)</b>				
		Input price	98.7		+0.6%	
		Output price	99.8		+0.3%	
2/25	December	<b>Index of Business Conditions (revised figures, 2015=100)</b>				
		Leading indicators	91.6	+0.8		
		Coincident indicators	94.1	-0.6		
			Lagging indicators	105.0	+0.6	
	January		<b>Corporate Services Price Index (2015=100)</b>			
		Overall index	104.7		+2.3%	
2/21	December	<b>Monthly Labor Statistics (final figures)</b>				
		Total cash salary per capita (JPY)	564,886		-0.2%	
		Total working hours	140.3		-0.4%	
	December		<b>Industrial Activity Indices (2010=100)</b>			
			All industries	103.9	0.0%	
			Construction industry	106.3	-2.0%	
	January		<b>National Consumer Price Index (2015=100)</b>			
		Core	102.0	+0.1%	+0.8%	
2/19	December	<b>Private Core Machinery Orders (billion JPY)</b>	824.8	-12.5%		
	December	<b>General Construction Statistics</b>				
			Private non-residential construction (billion JPY)	906.6		-0.2%
			Public works (billion JPY)	2,197.1		+7.6%
	January		<b>Trade Statistics (customs clearance level)</b>			
			Trade balance (billion JPY)	-1,312.6	+109.1%	-7.4%
			Exports (billion JPY)	5,430.5	-3.7%	-2.6%
		Imports (billion JPY)	6,743.1	-1.8%	-3.6%	

2/18	December	<b>Synthetic Consumption Index (2011=100)</b>	101.6	-1.1%	
2/17	December	<b>Indices of Industrial Production (final figures, 2015=100)</b>			
		Production capacity index	98.2		-0.5%
		Capacity utilization ratio	95.1	-0.4%	
		Production	98.8	+1.2%	
		Shipments	96.7	+0.3%	
		Inventory	104.2	+0.9%	
2/14	December	<b>Tertiary Industry Activity Index (2010=100)</b>	105.3	-0.2%	
	January	<b>Public Works Advanced Securities Statistics</b>			
		Contract amount (billion JPY)	641.5		+9.6%
		Number of contracts	12,862		-5.2%
2/13	January	<b>Domestic Corporate Price Index (2015=100)</b>			
		Corporate Price	102.5	+0.2%	+1.7%
		Export Price	92.4	+0.3%	-1.4%
		Import Price	94.1	+0.7%	-0.7%
2/10	December	<b>Information Services Industry Sales (billion JPY)</b>	1,214.5		+1.8%
	January	<b>Economy Watchers Survey</b>			
		Current Conditions Diffusion Index	41.9	+2.2	
		Future Conditions Diffusion Index	41.8	-3.7	
	December	<b>Balance of Payments</b>			
		Current account (billion JPY)	524.0	-4.5%	+12.8%
		Exports (billion JPY)	6,557.3	+0.8%	-7.2%
		Imports (billion JPY)	6,436.5	-3.4%	-6.0%
2/7	December	<b>Monthly Labor Statistics (preliminary figures)</b>			
		Total cash salary per capita (JPY)	565,779		0.0%
		Total working hours	140.3		-0.4%
	December	<b>Index of Business Conditions (preliminary, 2015=100)</b>			
		Leading indicators	91.6	+0.8	
		Coincident indicators	94.7	0.0	
		Lagging indicators	106.9	+2.5	
	December	<b>Family Income and Expenditure Survey (households with 2 or more people)</b>			
		Nominal consumption expenditure (JPY)	321,380	-1.6%	-3.9%
		Real consumption expenditure		-1.7%	-4.8%
	December	<b>Consumption Trend Index (2015=100)</b>	99.1	-1.1%	
	December	<b>Consumption Activity Index (2011=100)</b>	102.3	+0.3%	
2/4	January	<b>Food Buffer Stock (billion JPY)</b>	3.2		-4.3
	January	<b>New Car Sales (vehicles)</b>	301,194		-12.1%

### CQM Forecast Tracking

Forecast date	Real GDP			Deflator		Real GDP			Deflator		Real GDP			Deflator	
	Expenditure side	Production side (PCA)	Average	GDP	PCE	Expenditure side	Production side (PCA)	Average	GDP	PCE	Expenditure side	Production side (PCA)	Average	GDP	PCE
	2019Q4					2020Q1					2020Q2				
	SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)		SAAR (%)			QoQ (%)	
8/12	-0.9	-1.2	-1.1	-0.1	0.1										
8/19	-0.8	-1.1	-1.0	0.0	0.1										
8/26	-0.6	-0.7	-0.7	0.0	0.1										
9/02	-0.7	-0.7	-0.7	0.0	0.1										
9/09	0.0	0.0	0.0	0.0	0.0										
9/10	-0.3	-0.6	-0.5	0.0	0.1										
9/16	-0.6	-0.8	-0.7	-0.1	0.1										
9/23	-1.0	-0.9	-1.0	-0.1	0.1										
9/30	-1.0	-0.9	-1.0	-0.1	0.1										
10/07	-0.2	-0.6	-0.4	-0.1	0.1										
10/14	0.0	-0.5	-0.3	0.0	0.1										
10/21	-0.2	-0.2	-0.2	0.1	0.2										
10/28	-0.4	-0.8	-0.6	0.1	0.2										
11/04	-1.7	-1.9	-1.8	0.1	0.2										
11/11	-0.4	-0.5	-0.5	0.1	0.2										
11/14															
11/18	-1.8	-3.1	-2.4	0.1	0.3	1.4	0.4	0.9	-0.2	0.0					
11/25	-2.2	-2.5	-2.4	0.1	0.2	0.8	0.4	0.6	-0.2	0.0					
12/02	-3.1	-3.3	-3.2	0.1	0.2	1.2	0.7	1.0	-0.2	0.0					
12/09															
12/10	-3.9	-4.6	-4.3	0.1	0.2	1.1	1.3	1.2	-0.2	0.0					
12/16	-3.9	-4.4	-4.2	0.1	0.2	1.0	0.7	0.9	-0.2	0.0					
12/23	-3.5	-4.4	-4.0	0.2	0.2	1.2	0.6	0.9	-0.1	0.1					
1/06	-3.8	-5.3	-4.5	0.1	0.0	0.9	1.3	1.1	-0.2	0.1					
1/13	-3.7	-6.5	-5.1	0.0	0.0	0.6	1.0	0.8	-0.2	0.1					
1/20	-3.6	-6.0	-4.8	0.0	0.0	0.7	1.1	0.9	-0.1	0.1					
1/27	-4.0	-6.3	-5.2	0.1	0.1	1.8	0.7	1.3	0.0	0.3					
2/03	-3.3	-5.6	-4.4	0.1	0.1	2.3	1.6	1.9	0.0	0.3					
2/10	-4.2	-6.4	-5.3	0.1	0.1	1.8	1.1	1.4	0.0	0.3					
2/17	<u>-6.3</u>			<u>0.4</u>	<u>0.6</u>										
2/18						0.9	0.6	0.8	0.2	0.4	0.3	2.0	1.1	-0.3	-0.3
2/24						0.0	0.2	0.1	-0.1	0.1	-0.4	1.8	0.7	-0.3	-0.3
3/02						-0.6	0.0	-0.3	0.0	0.1	-0.5	1.7	0.6	-0.3	-0.3

Note: Underlined figures are 1st preliminary estimates, and figures marked by \* are 2nd preliminary estimates.